

Message Text

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ACTION COME-00

INFO OCT-01 ARA-06 ISO-00 EB-07 FEA-01 /015 W

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R 051414Z MAY 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 0016

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 3238

E.O. 11652: GDS

TAGS: BENC BEXP ENRG EC BTIO

SUBJ: MAJOR PROJECT: PTEROCHEMICAL CONSULTANCY CONTRACT

REF: STATE 086525

1. FOLLOWING IS AVAILABLE BACKGROUND INFORMATION ON CEPE'S PLANNED PETROCHEMICAL:REFINERY COMPLEX. MUCH OF INFORMATION ON CEPE'S PLANS IS VAGUE AND CONTRADICTORY, SINCE PROJECT IS STILL IN PLANNING STAGES, AND CEPE APPARENTLY IS STILL NOT OF ONE MIND AS TO PRECISELY WHAT IT WANTS OR HOW IT HOPES TO ACHIEVE IT. COMPANIES ARE ESSENTIALLY BENING ASKED TO DECIDE "WHAT" AND "HOW." HRI HAS BEEN IN CONTACT WITH EMBASSY'S COMMERCIAL SECTION REGARDING REPUTATION OF POSSIBLE LOCAL AGENTS.

2. CEPE HAS BEEN PLANNING A PETROCHMICAL COMPLEX FOR SEVERAL YEARS, ALTHOUGH RECENT ANDEAN PACT PETROCHEMICAL ASSISGMENTS GAVE AN ADDED PUSH TO CEPE PLANS. THE CURRENT MINISTER OF COMMERCE AND INDUSTRIES, GALO MONTANO, IS CONSIDERED ECUADOR'S LEADING EXPERT ON PETROCHEMICALS, AND IS ECNOURAGING DEVELOPMENT OF A PETROCHEMICAL COMPLEX DESPITE SKEPTICISM AND SOME OUTRIGHT OPPOSITION FROM GOVERNMENT OFFICIALS AND THE PUBLIC.

3. INITIAL COSST OF THE PETORCHEMICAL COMPLEX IS ESTIMATED BY MONTANO AND OTHER AUTHORITIES TO BE SOMEWHERE AROUND \$300 MILLION (EVENTUAL TOTAL COST MIGHT EXCEED \$ 1 BILLION). THE GOE ENVISIONS A HOLDING COMPANY WITH PRIVATE PARTICI-
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PATION OF 20 PERCENT AND STATE PARTICIPATION OF 80 PERCENT.

THE MINISTRY ESTIMATES THAT THE GOVERNMENT ITSELF WILL HAVE TO SUPPLY \$70 MILLION TO START UP THE PROJECT; THE REMAINDER OF THE \$300 MILLION WILL HAVE TO COME FROM PRIVATE (FOREIGN) LENDERS AND INVESTORS.

4. THE 150,000 BARREL PER DAY REFINERY FOR PINCHINCHA PROVINCE (QUITO) IS PART OF THE SAME NATIONAL COMPLEX. EXISTING REFINERY AT ESMERALDAS--WHEN EXPANDED--WILL ALSO SUPPLY SOME PETROCHEMICAL FEEDSTOCK. PLAN IN BROAD OUTLINE ENVISIONS TEN TO TWELVE INDUSTRIAL PETROCHEMICAL PLANTS IN VARIOUS PARTS OF ECUADOR, USING REFINERY FEEDSTOCK.

5. GAS PROCESSING PLANTS TO BE BUILT ALONG THE GULF OF GUAYAQUIL ARE THE ONLY PART OF THE PETROCHEMICAL PLANS THAT HAVE GOTTEN PAST THE MOST RUDIMENTARY PLANNING STATE. U.S. FIRM NORTHWEST ENERGY, CONCESSIONAIRE FOR THE DEVELOPMENT OF NATURAL GAS IN THE GULF OF GUAYAQUIL, HAS SIGNED A REPLIMINARY CONTRACT WITH THE ITALIAN FIRM OF SNAMPROGETTI FOR CONSTRUCTION OF AN AMMONIA PLANT.

6. THERE ARE TWO REASONS THAT EMBASSY (AND MUCH OF ECUADOREAN PUBLIC) BELIEVES PETROCHEMICAL COMPLEX MAY HAVE DIFFICULTY IN GETTING OFF THE GROUND. ONE IS UNPRECEDENTED AMOUNT OF FINANCING REQUIRED, ALTHOUGH CURRENTLY DEPLETED NATIONAL DEVELOPMENT FUND (FONADE) ACCOUNT MAY RECOVER SUFFICIENTLY IN NEXT FEW YEARS TO SUPPLY AT LEAST PART OF THIS FINANCING.

7. MORE SERIOUS CONSTRAINT FOR DEVELOPMENT OF PETROCHEMICAL COMPLEX IS ECUADOR'S DECLINING LEVEL OF PETROLEUM RESERVES AND SLIM CHANCES OF DISCOVERING NEW STRUCTURES, GIVEN PRESENT GOE PETROLEUM POLICIES' LACK OF INCENTIVES FOR FIRMS THAT WOULD UNDERTAKE EXPLORATIONS. AT PRESENT RATE OF EXPLOITATION OF AROUND 200,000 BARRELS PER DAY, AND A 10 PERCENT PER ANNUM INCREASE IN DOMESTIC CONSUMPTION, ECUADOR WILL AGAIN BE A PETROLEUM IMPORTER BY EARLY 1990'S. EMBASSY FORESEES NO IMMEDIATE CHANGE IN GOE'S NATIONALISTIC OIL POLICIES, WHICH HAVE EFFECTIVELY DISCOURAGED EXPLORATION. OFFICIALS FROM THE MINISTRY OF NATURAL RESOURCES AND MINISTRY OF COMMERCE, INDUSTRIES AND INTEGRATION HAVE PUBLICLY POINTED OUT MANY

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TIMES THAT CONSTRUCTION OF A PETROCHEMICAL COMPLEX AND THE CONCURRENT 150,000 BARREL PER DAY REFINERY IS PREDICATED ON DISCOVERY OF NEW STRUCTURES. EVEN WERE GOE OIL POLICIES TO BECOME LIBERALIZED AND LARGE PETROLEUM STRUCTURES TO BE DISCOVERED, LEAD TIME IN DEVELOPMENT OF SUCH NEW RESERVES MAY WELL DELAY PETROCHEMICAL COMPLEX WELL BEYOND GOE'S TARGET START-UP IN 1980-1983.

8. REFINERY REFERRED TO IN PARA 3 OF REFTTEL MUST BE STATE FIRM OF SUMITOMO-CHIYODA. SUMITOMO-CHIYODA HAS ALREADY SIGNED A CONTRACT WITH CEPE FOR EXPANSION OF THE REFINERY TO PRODUCE MORE GASOLINE AND LIGHT PRODUCTS. CEPE HAS ALSO SIGNED A CONTRACT WITH U.S. FIRM UNIVERSAL OIL PRODUCTS TO CONTINUE IN ITS PRESENT ROLE AS CONSTRUCTION SUPERVISORS AFTER PLANNED OCTOBER 1976 REFINERY START-UP AND SUBSEQUENT EXPANSION OF THE REFINERY. CEPE IS WELL PLEASED WITH WORK OF SUMITOMO-CHIYODA, WHICH MAY GIVE JAPANESE INSIDE TRACT ON OTHER PROJECTS. LOCAL INDUSTRY SOURCES ALSO REPORT THAT JAPANESE MAY HAVE CONSTRUCTED REFINERY AT A LOSS, AS A "LOSS-LEADER" TO INSURE FUTURE WORK.

9. CEPE INDUSTRIAL DIRECTOR (PRIME SOURCE OF INFORMATION SUCH AS WAS REQUESTED IN REFTTEL) HAS BEEN OUT OF COUNTRY, BUT IS DUE BACK THIS WEEK, AND EMBOFF WILL CALL ON HIM TO OBTAIN MORE INFORMATION AS SOON AS HE RETURNS.
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